



Congressman Jim Jordan (R-OH), Chairman

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What Happens to Federal Revenue *Without* New Taxes?

The President's "Fiscal Responsibility" Commission held its first meeting yesterday. The goal of the commission is to reduce the deficit to \$552 billion by 2015—a **higher deficit than any year from 1789 to 2008**, but still lower than the President's budget request with a \$793 billion deficit in that year. One concern that conservatives may have with the commission is that the 12 Democrat appointees will likely suggest tax increases as a means to bring down the deficit.

In many places, the conventional wisdom is that putting the federal budget on a sustainable path will require both spending reductions (compared to current law) and tax increases (compared to current law). On spending, the conventional wisdom is undoubtedly correct, as even many liberal budget experts will concede. CBO's long-term budget outlook projects that spending will increase from the recent historical average of 20.7% of GDP to 31.7% of GDP by 2050 (from there it continues to grow).

Quotes of the Week:

"I don't think it's a good time to be raising anybody's taxes."

-Rep. Michael McMahon (D-NY)

But while federal spending projections lead to unsustainable red ink, current law federal revenue projections actually *improve* the budget outlook. From 2009 to 2020, federal tax receipts increase from \$2.105 trillion to \$4.567 trillion—an increase from 14.8 to 20.3 percent of GDP. Over the last forty years, tax revenue has averaged 18% of GDP. If federal revenues were projected to decline by as much as federal spending is projected to increase, it would have to decline all the way to 7% of GDP. Instead, CBO projects tax revenues will increase from 18% of GDP to 23.4% of GDP by 2050—an additional 5.4 percent of economic output will be consumed by federal taxes. Even if the income tax cuts enacted in 2001 and 2003 are made permanent (and the President's budget assumes many of them will expire), and the AMT "patch" is made permanent, federal tax revenue still increases from the historic average of 18% of GDP to 19.9% of GDP by 2050 (and it continues to grow from there).

Extended-Baseline Scenario Projected Federal Budget as Percentage of GDP

	Spending	Revenue	Deficit
2009	24.7	<i>14.8</i>	9.9
2020	22.6	<i>20.3</i>	2.3
2035	27.4	<i>21.8</i>	5.6
2050	31.7	<i>23.4</i>	8.3
2080	43.7	<i>25.9</i>	17.8

By any available projection, over the long-term, both spending and taxes grow as proportion of total economic output. The federal government's fiscal problems are *entirely* the result of a spending problem. Under current law, without any new taxes, the American people will still be asked to pay a tax burden without precedent in American history. And it will be necessary to cut some taxes, compared to current law, just to keep the federal tax burden at historic levels.

6.5 Million Americans Suffer Long-Term Unemployment

According to Veronique de Rugy of the Mercatus Center, the portion of overall unemployment that consists of long-term unemployment (defined as unemployment of more than 27 weeks) is the highest on record. 6.5 million workers have been unemployed for 27 weeks or more. This is 44.1% of all unemployed workers in the U.S. As high as this figure is, it does not include 5.8 million other individuals who desire unemployment but are not included in Bureau of Labor Statistics (BLS) figures. The average portion of unemployed workers who have been unemployed for more than 27 weeks or more is 12.4%. As recently as the beginning of 2008, 18.3% of unemployed workers were long-term unemployed.

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